

**SOUTH CAROLINA
DEPARTMENT OF ALCOHOL
AND OTHER DRUG ABUSE SERVICES**

COLUMBIA, SOUTH CAROLINA

STATE AUDITOR'S REPORT

JUNE 30, 2017



Independent Accountant's Report on Applying Agreed-Upon Procedures

August 14, 2018

Ms. Sara Goldsby, Director
South Carolina Department of Alcohol
and Other Drug Abuse Services
Columbia, South Carolina

We have performed the procedures described in Attachment 1, which were agreed to by the management of the South Carolina Department of Alcohol and Other Drug Abuse Services (the Department), on the systems, processes and behaviors related to financial activity of the Department for the fiscal year ended June 30, 2017. The Department's management is responsible for the systems, processes and behaviors related to financial activity. The sufficiency of these procedures is solely the responsibility of the specified parties in this report. Consequently, we make no representation regarding the sufficiency of the procedures described in Attachment 1 either for the purpose for which the agreed-upon procedures report has been requested or for any other purpose.

This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. We were not engaged to and did not conduct an examination or review, the objective of which would be an opinion or conclusion, respectively, on the systems, processes and behaviors related to financial activity of the Department. Accordingly, we do not express an opinion or conclusion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

The concept of materiality does not apply to findings to be reported in an agreed-upon procedures engagement. Therefore, all findings from the application of the agreed-upon procedures must be reported unless the definition of materiality is agreed to by the specified parties. Management of the Department has agreed that the following deficiencies will not be included in the State Auditor's Report on Applying Agreed-Upon Procedures:

- Clerical errors of less than \$1,000 related to processing cash receipts and cash disbursements transactions unless the errors occur in ten percent or more of the transaction class inspected.
- Clerical errors of less than \$1,000 related to reporting packages.
- Errors in applying account coding definitions to accounting transactions unless it is determined that ten percent or more of the accounting transactions inspected were found to be in error.
- Reporting packages which are submitted less than three business days after the due date unless it is determined that more than two of the reporting packages were submitted late.

This report is intended solely for the information and use of the management of the South Carolina Department of Alcohol and Other Drug Abuse Services and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

George L. Kennedy, III, CPA
State Auditor

South Carolina Office of the State Auditor

Agreed - Upon Procedures - South Carolina Department of Alcohol and Other Drug Abuse Services (J20)

Cash Receipts/Revenues

1. Compare current year revenues at the subfund and account level from sources other than State General Fund appropriations to those of the prior year. Obtain and document an understanding of variations over \$40,000 – Earmarked Funds, \$180,000 – Federal Funds and 10%.
2. Randomly select twenty-four cash receipts transactions and inspect supporting documentation to:
 - Agree transaction amount, date, payor, document number, and account coding to the general ledger.
 - Determine that revenues/receipts were deposited in a timely manner, in accordance with Proviso 117.1 of the Appropriation Act.
 - Ensure that both revenue collections and amounts charged are properly authorized by law.
3. Randomly select seven cash receipts and inspect supporting documentation to determine that receipts are recorded in the proper fiscal year.

We found no exceptions as a result of the procedures.

Cash Disbursements/Non-Payroll Expenditures

4. Compare current year non-payroll expenditures at the subfund and account level to those of the prior year. Obtain and document an understanding of variations over \$65,000 – General Funds, \$60,000 – Earmarked Funds, \$2,000 – Restricted Funds, and \$180,000 – Federal Funds and 10%.
5. Randomly select twenty-five non-payroll disbursements and inspect supporting documentation to determine:
 - Transaction is properly completed as required by Department procedures; invoice(s) agree(s) with general ledger as to vendor, amount, number, and date.
 - All supporting documents and approvals required by Department procedures are present and agree with the invoice.
 - The transaction is a bona fide expenditure of the Department, properly coded to the general ledger.
 - Disbursement complied with applicable State laws, rules, and regulations including the State Consolidated Procurement Code, state travel regulations, etc.
 - Clerical accuracy / confirm proper sales/use tax.

For federally funded cash disbursements/non-payroll expenditures selected, inspect supporting documentation to determine:

- Charges are necessary and reasonable for the proper administration of the program, incurred during the approved grant period, given consistent accounting treatment and applied uniformly to both federally assisted and other activities of the recipient.
6. Randomly select twenty-five non-payroll disbursements and inspect supporting documentation to determine that disbursements are recorded in the proper fiscal year.

Cash Disbursements/Non-Payroll Expenditures (Continued)

7. Haphazardly select five purchasing card disbursements from the Comptroller General's listings of purchasing card transactions for fiscal year 2017 to determine:
 - The cardholder is authorized.
 - The purchase is authorized based on the cardholder's job title/position.
 - The monthly purchase summary was submitted along with applicable receipts and signed by both the supervisor and cardholder.
 - The purchase did not exceed the single transaction limit or the individual credit limit and there was no indication of transaction splitting.

We found no exceptions as a result of the procedures.

Payroll

8. Compare current year payroll expenditures at the subfund and account level to those of the prior year. Obtain an understanding of variations over \$65,000 – General Funds, \$60,000 – Earmarked Funds, \$2,000 – Restricted Funds, and \$180,000 – Federal Funds and 10%.
9. Randomly select six employee payments and inspect supporting documentation during the fiscal year to:
 - Obtain and inspect the employee's payroll and/or personnel file for various forms, communications, etc., to confirm that the person is a bona fide employee of the Department.
 - Agree gross pay to supporting documentation confirming all changes to gross salary for the year. Determine that all changes have been properly approved.
10. Haphazardly select two bonus pay disbursements to determine:
 - Employee does not make more than \$100,000 annually.
 - Bonuses received during the year did not exceed \$3,000.
 - Transaction was appropriately documented and approved.
11. Haphazardly select five employees hired during the fiscal year to determine if they were added to the payroll in accordance with the Department's policies and procedures and that their first pay check was properly calculated in accordance with applicable State law.
12. Haphazardly select five employees who terminated employment during the fiscal year to determine if they were removed from the payroll in accordance with the Department's policies and procedures, that the employee's last pay check was properly calculated and that the employee's leave payout was properly calculated in accordance with applicable State law.
13. Compare the percentage change in personal service expenditures between the current year and prior year to the percentage change in employer contributions expenditures between the current year and prior year. Obtain an explanation of variations over 10%.
14. Compute the percentage distribution of fringe benefit expenditures by fund source and compare to the actual distribution of recorded personal service expenditures by fund source. Obtain an explanation of variations over 10%.

Finding

For one of five terminating employees inspected, leave balance supporting documentation was not adequate to confirm the leave payout of the terminating employee.

Payroll (Continued)

Management's Response

We agree with the auditor's comments, and the following action will be taken to eliminate the situation. As part of policy and procedures, the HR Manager will forward to any employees separating from DAODAS as of SFY19 their leave balance, leave payout amounts, and final pay stub. These documentations will be maintained by the Finance & Operations Manager as Personnel and Payroll Changes for the fiscal year. This will ensure a check and balance in the agency for the required information. These documentations will be utilized in several reporting capabilities.

Journal Entries and Transfers

15. Randomly select ten journal entries and two transfers for the fiscal year to:

- Trace postings to the general ledger, confirming amounts agree with supporting documentation.
- Confirm transaction is properly approved.
- Inspect supporting documentation to confirm the purpose of the transaction.

We found no exceptions as a result of the procedures.

Appropriation Act

16. Inspect the Appropriation Act work program, provided to and completed by management, confirming areas of noncompliance, if any.

17. Confirm compliance with Department-specific state provisos by inquiring with management and observing supporting documentation, where applicable.

We found no exceptions as a result of the procedures.

Reporting Packages

18. Obtain copies of fiscal year end reporting packages submitted to the Office of the State Comptroller General (CG). Inspect the Master Reporting Package Checklist to determine the appropriate reporting packages were prepared and submitted by the due date established by the CG's Reporting Policies and Procedures Manual. Inspect the reporting packages to:

- Determine if preparation was in accordance with CG requirements.
- Determine if amounts reported on the reporting packages agree with the supporting workpapers and accounting records.

Findings

Prepaid Expense

The amount reported for prepaid expense was overstated by approximately \$8,500 due to a clerical error on the summary form presentation.

Operating Leases

The Department reported no contingent rental payments on the Operating Leases Reporting Package, but transactions recorded in the accounting system contained contingent rental payments.

Reporting Packages (Continued)

Findings (Continued)

Accounts Payable

A vendor payable of approximately \$7,000 was misclassified as an intergovernmental payable on the Accounts Payable Summary Form.

Grants & Contributions

The amount reported for grants receivable was understated by approximately \$500,000 due to the inadvertent omission of a grant from the grants activity form.

Management's Response

We agree with the auditor's comments. The Division of Finance & Operations has consulted with the State Auditors for clarity, the reporting package's instructions as a resource, and the Comptroller General - CAFR staff on correct reporting methodology. The corrections have been implemented as instructed. Our business practices have been revised to ensure proper recording of fiscal transactions. For Prepaid Expenses, we have a clear concept of the "expensed" being the prior fiscal year portion of payments and the "current" being the actual payments funded in the new (current) fiscal year. For Operating Lease, clarity was received on the proper General Ledger code and explanation of "contingent" and "contingent with clauses" for termination of early classifications. For Accounts Payable, the correct categorizations for the payables will be utilized for colleges and universities. For Grants & Contributions, we will ensure that all grant activities are captured and reported properly.

Governance, Risk, and Compliance (GRC)

19. Select all (five) controls identified through the South Carolina Enterprise Information System (SCEIS) GRC system and inspect mitigating control documentation. Confirm with management the controls are operating as designed.

We found no exceptions as a result of the procedures.

Subrecipient Monitoring

20. Inspect fiscal year 2017 documentation supporting the Department's monitoring of its subrecipients.

We found no exceptions as a result of the procedures.

Status of Prior Findings

21. Through inquiry and inspection, determine if the Department has taken appropriate corrective action on the finding reported during the engagement for the prior fiscal year.

We found no exceptions as a result of the procedures.